

2003-2004 SANTA CLARA COUNTY CIVIL GRAND JURY

INQUIRY INTO THE MISUSE OF DISTRICT-ISSUED CREDIT CARDS IN THE EAST SIDE UNION HIGH SCHOOL DISTRICT

Summary

In past years, a number of administrators and staff members, as well as some Board of Trustee (Board) members from the East Side Union High School District (District), have used district-issued credit cards inappropriately. Board members have used District credit cards to pay for personal expenses, for equipment specifically not authorized, and for travel to functions that were not approved by the Board. Administrators and staff used District cards to purchase goods and services without submitting receipts and to bypass normal purchasing controls. The District, unlike most other districts in Santa Clara County (County), did not have effective financial controls in place for the use of credit cards, nor for the authorization of expenditures by district administrators and board members. School district staff involved in processing payments for the credit cards were not able to enforce procedures in a culture that lacked accountability. School boards of trustees within the County should ensure that financial accountability is practiced in their districts and that written policies and procedures are in place and followed for reimbursement of expenses.

Background

Responding to a citizen complaint, the 2003-2004 Santa Clara County Civil Grand Jury (Grand Jury) investigated the use of credit cards and the financial control policies of the District. During the investigation, information obtained at meetings held with District personnel supported the complaint and identified problems with the use of District-issued credit cards. Interviews with school staff indicated there was a lack of enforcement of written control procedures during the period of inappropriate usage.

The District had written procedures in place before and during 2001-2002 (see Appendix A). These procedures, upon review by the District, were found to have ineffective controls and a number of loopholes. These were replaced for the 2003-2004 school year with the document provided in Appendix B. Significant changes between the two are underlined. Each credit card holder and the chief financial officer must sign a statement of personal responsibility that they “will be held to the highest standards of protocol according to these Board Approved Policies and Procedures.”

Credit cards were issued to District staff beginning October 1996 in order to bypass a reported 30-day standard purchase order process and to avoid the costs of the associated paperwork. All expenditures using the cards were to be made within the existing budgets.

The cards issued were procurement cards, i.e., they incurred direct obligations to the District. With this type of credit card, charges are paid on the balances as submitted by the credit card company even if receipts have not been turned in by the credit card holder. (Many companies issue credit cards to their employees, but often that type of credit card is the financial responsibility of the employee. The employee's credit card account is reimbursed by the company for valid expenditures after the employee submits an expense voucher, which is reviewed and approved by an authorized manager.) Some District expenses charged to the cards were reasonable, such as supplies needed in an emergency. Some purchases simply bypassed the purchasing organization for the District. Non-employees were issued and used cards. Electronic equipment was purchased without authorization or receipts being submitted, and food and beverage items were inappropriately charged to some cards.

Credit card usage grew with the number of cards issued during 1997 and 1998. At the end of 1998, approximately 40 cards were being used per month, with an average of \$1000 charged each month per card. During 1999, 2000, and the first quarter of 2001, the number of cards grew more slowly to approximately 55 in use at the same time. However, the average expenditure per card increased to almost \$2000 per card per month. (See the chart in Figure 1.)

During late 2000 and early 2001, the Fiscal Crisis and Management Assistance Team (FCMAT) conducted a management review at the request of the District. The mission of FCMAT is "to help California's local educational agencies fulfill their financial and management responsibilities by providing fiscal advice, management assistance, training and other related school business services." FCMAT operates from the office of the Kern County Superintendent of Schools under contract with the California Department of Education and the Governor's Office.

The FCMAT report found that as of November 15, 2000, 63 staff had been issued 109 credit cards. Most staff members were issued two cards, one for supplies and one for travel and entertainment expenses. It also found that the District "had more than \$250,000 of undocumented expenditures dating back to 1998, and no action had been taken to revoke purchasing cards or require reimbursement of the costs to the district." FCMAT made nine recommendations specifically regarding credit card usage and policies to establish effective financial controls. Moreover, FCMAT found areas besides credit card usage with lax internal financial control structure. Most telling, FCMAT "noted instances in which both the East Side District's administration and governing board did not follow prescribed policy regarding internal controls. This demonstrates a lack of commitment to approved controls and policies at the highest supervisory level. When this happens, the attitude of all employees towards policy is weakened."

After the FCMAT review in the second quarter of 2001, all cards were recalled and reissued to a smaller number of individuals. The number of cards in active use fell by about half to approximately 30, and the average expenditure per card also dropped to a little over \$1000 per card per month. Usage then remained steady (see Figure 1) until the current superintendent assumed office in September 2003, when the average amount charged per card dropped by half. In March 2004, all cards were taken out of service except for five issued to the superintendent

and a few other district cabinet officers. Expenditures made via credit cards have dropped to less than 2% of the amounts charged in 2000.

Over a seven-year period, more than \$3.4 million in credit card charges were made by a total of 92 people. During the peak year of 2000, nearly \$0.9 million was spent by this method, bypassing normal purchasing procedures and controls. Twelve individuals, with total amounts charged ranging from \$90,000 to \$246,000, accounted for more than half of the total expenditures. The maximum monthly total on a single card was \$30,000.

The District's purchasing department was not involved in monitoring or approving credit card purchases. When purchased through normal channels, expenditures would be assigned to proper accounting categories. Since sometimes credit card statements were routed directly to the finance department with no receipts or documentation, the finance department could not provide complete and accurate booking of the expenditures. Equipment that should have been logged as District property was not.

During this time, cards were issued as well to District board members. While some expenditures in recent well-publicized reviews have been found to be inappropriate (with some indications of reimbursements to the District), the charges by the Board amounted to only 2% of total credit card expenditures. Although small in amount, these inappropriate expenditures set the tone for the administration to allow lax financial controls for themselves and staff.

A Grand Jury survey of school districts within the County found one district that did not report having written reimbursement policies in place for either board members or staff. (See Appendix C.) Several other districts besides the East Side Union High School District do not have written reimbursement policies in place which contain most or all the elements recommended by the California School Board Association (CSBA). Only three other districts in the County issued credit cards to board of trustee members.

Discussion

The District had a problem with a lax culture of financial accountability, including expenses charged to credit cards. Both the amount charged and the number of cards in use did not follow the practice of the majority of the districts in the County, and the District did not follow the recommended policies of the CSBA or the recommendations of the FCMAT audit. The policies and procedures that were in place were not followed. The District's internal auditor was discouraged from monitoring card usage, even for the purposes of categorizing the charged expenses properly.

The District could have instructed the card issuer to put controls on the use of the cards, such as the types of purchases allowed, as well as spending limits. These controls were not implemented because they were never requested.

The new District superintendent has strengthened the credit card controls by requiring signed copies of the personal accountability statement by each cardholder and the District chief financial officer, limiting the number of cards in use, and making the consequences for violating the policies clear. In addition, board members no longer have cards issued to them.

The new superintendent is establishing a culture of financial responsibility. Besides limited and responsible credit card usage, this improvement involves eliminating inappropriate consultancies, stopping payments to parties with conflicts of interest, and recovering funds and goods that belong to the District.

The CSBA has recommended language for policies that school boards of trustees may adopt, including for reimbursement of expenses. The relevant section for the reimbursement of expenditures by board members is summarized, including options, as follows:

“Board members shall be reimbursed for traveling expenses incurred when authorized in advance by the Board. The rate of reimbursement shall be the same rate specified for district personnel. Board members may use district-issued credit cards while on official district business. Under no circumstances may personal expenses be charged on district credit cards.”

That language would have precluded the approval of the District board member expenses that were questioned in the complaint to the Grand Jury.

While the Grand Jury did not investigate possible linkages between academic results of the District and the financial management of the District, it is concerned that poor management of school resources may be a contributor to low academic performance.

Conclusions

The alleged complaint of inappropriate use by board members of District credit cards was found to be valid, but led to an additional finding that District staff had also been misusing credit cards on a much larger scale than in the complaint.

Adoption of written policies as recommended by the CSBA by the board of trustees removes ambiguity about what is authorized, protecting the district, the board member, and the school staff processing the payments. Boards of trustees must ensure that internal financial control structures are in place and that administrators make them effective.

Finding I

District-issued credit cards have been used inappropriately by District staff and by board of trustee members. The number of cards issued has now been limited to the top staff only in the District and written policies have been signed by those with cards.

Recommendation I-A

The District should continue to pursue reimbursement by District staff of unauthorized and inappropriate expenditures.

Recommendation I-B

The board of trustees should approve the list of District credit card holders.

Recommendation I-C

The District should invite FCMAT to audit after the 2004-2005 fiscal year to ensure that a culture of fiscal responsibility has been established.

Finding II

Several school districts within Santa Clara County do not have written policies regarding the reimbursement of expenditures by school board members nor the use of district-issued credit cards.

Recommendation II

All school districts within the County that issue credit cards should have written policies containing all the elements in the CSBA recommendations regarding the use of district-issued credit cards and the reimbursement of expenditures.

Finding III

Only three school districts issue individual credit cards to their board of trustee members. All other districts in the County find it unnecessary to issue credit cards to board members.

Recommendation III

To avoid problems and conflicts of interest, school districts should not issue individual credit cards to board of trustee members.

PASSED and **ADOPTED** by the Santa Clara County Civil Grand Jury on this 6th day of May 2004.

Richard H. Woodward
Foreperson

References

Documents

California School Board Association web site: www.csba.org.

Email from the California School Board Association dated November 21, 2003.

FCMAT Management Review of the District Report dated May 11, 2001.

East Side Union High School District Credit Card Policies and Procedures, 2001-2002.

East Side Union High School District Credit Card Policies and Procedures, 2003-2004.

East Side Union High School District web site: www.esuhdsd.org.

San Jose Mercury News, March 14, 2004, pg. 8B, Academic Performance Index scores.

Interviews

Chief Operating Officer, East Side Union High School District, March 17, 2004.

Director of General Services, East Side Union High School District, April 14, 2004.

District Auditor, East Side Union High School District, April 13, 2004.

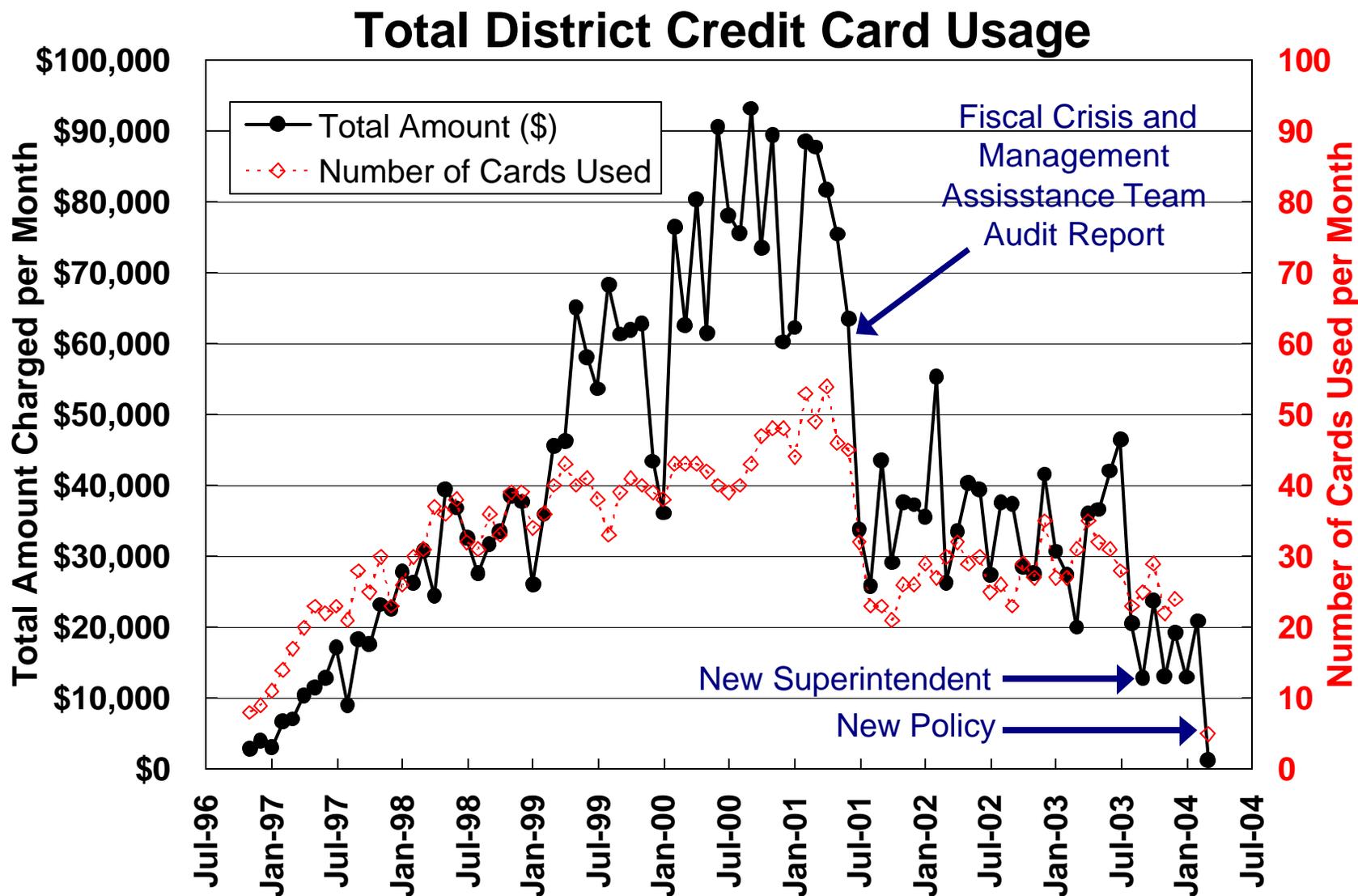
Former Superintendent, East Side Union High School District, April 21, 2004.

Superintendent, East Side Union High School District, March 17, 2004, and April 13, 2004.

Meetings Attended

District Board of Trustees Meeting January 5, 2004.

Figure 1



Appendix A

East Side Union High School District Credit Card Policies and Procedures 2001-2002

- For emergency purchase of supplies and materials
- For travel and conference expenses supported with the following documentation submitted with a monthly statement:
 - Approved Travel and Conference form completed with actual expenses
 - Registration forms
 - Travel Itinerary
 - Meals receipts
- For supplies not available in the district warehouse
- For business meeting expenses supported with the following documentation submitted with the monthly statement:
 - Meeting Agenda
 - List of Attendees
 - Receipts
- NOT FOR purchase of EQUIPMENT over \$500 (i.e. computers, printers, TV's)
- For use with vendors not accepting Purchase Orders
- Not for personal purchases
- Monthly purchase limit is \$10,000
- Single purchase limit is \$3000
- Submit monthly statements, original receipts, and invoices to the Business Office by the 15th of each month (example: Statement dated June 24th is due by July 15th)
 - Do not hold statements because of missing receipts and/or disputed item(s)
 - Attach "Statement of Questioned Item" form as documentation for missing receipt and/or disputed item(s)
- Accounts over 30 days past due will be suspended
- Accounts over 60 days past due will be cancelled and referred to the General Counsel, Deputy Superintendent, and/or Asst. Supt. Of Business Services for further disciplinary action
- Repeated misuse of credit card is cause for cancellation (i.e. equipment purchase)
- Credit card purchases will be charged to pre-approved General Fund accounts (i.e. "481-4310" and "481-5210") unless indicated otherwise on the monthly statement

Credit Card Holder Personal Responsibility:

- Each credit card holder will be held to the highest standards of protocol according to these Board Approved Policies and Procedures

Authorized Card Holder

Date

Chief Financial Officer

Date

Appendix C

Table of Survey Responses

School District	Written Policies for Reimbursement		Cards Issued to		CA School Board Assn. Member
	Board	Staff	Board	Staff	
Alum Rock Union	Yes	Yes	No	No	Yes
Berryessa Union	Yes	Yes	No	No	Yes
Cambrian	Yes	Yes	No	Yes	Yes
Campbell Union High	Yes	Yes	Yes	Yes	Yes
Campbell Union	Yes	Yes	No	Yes	Yes
Cupertino Union	Yes	Yes	No	Yes	Yes
East Side Union High	Yes	Yes	now No	Yes	Yes
Evergreen	No	No	No	Yes	Yes
Franklin-McKinley	Yes	Yes	Yes	Yes	Yes
Fremont Union	Yes	Yes	No	Yes	Yes
Gilroy Unified	Yes	Yes	No	Yes	Yes
Lakeside Joint	Yes	Yes	No	Yes	Yes
Loma Prieta Joint Union	Yes	No	No	Yes	Yes
Los Altos	Yes	Yes	No	Yes	Yes
Los Gatos Union	Yes	Yes	No	Yes	Yes
Los Gatos-Saratoga Joint Union High	Yes	Yes	No	Yes	Yes
Luther Burbank	Yes	Yes	Yes	Yes	Yes
Metropolitan Education	Yes	Yes	No	Yes	Yes
Milpitas Unified	Yes	Yes	No	Yes	Yes
Montebello	No	Yes	No	No	Yes
Moreland	Yes	Yes	No	Yes	Yes
Morgan Hill Unified	Yes	Yes	No	Yes	Yes
Mount Pleasant	Yes	Yes	No	Yes	Yes
Mountain View-Los Altos Union High	Yes	Yes	No	Yes	Yes
Mountain View-Whisman	Yes	No	No	Yes	Yes
Oak Grove	Yes	Yes	No	Yes	Yes
Orchard	Yes	Yes	No	No	Yes
Palo Alto Unified	Yes	Yes	No	Yes	Yes
San Jose Unified	Yes	Yes	No	Yes	Yes
Santa Clara Unified	Yes	Yes	No	Yes	Yes
Saratoga Union	Yes	Yes	No	No	Yes
Sunnyvale	Yes	Yes	No	Yes	Yes
Union	Yes	Yes	No	No	Yes